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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 FEA-02 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-03 COME-00 DODE-00 FPC-01 H-03 INR-11

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 FRB-03 DOTE-00

PA-04 USIA-15 PRS-01 XMB-07 OPIC-12 EA-11 AGR-20

DRC-01 /220 W

----- 093092

R 231644Z JUL 74

FM AMEMBASSY LIMA

TO SECSTATE AASHDC 1112

INFO AMEMBASSY CARACAS

C O N F I D E N T I A L LIMA 5998

E.O. 11652: GDS

TAGS: EMIN, ENRG, VE, PE

SUBJ: OCCIDENTAL'S HAMMER VISITS PERU, EXPRESSES

INTEREST IN PIPELINE AND CONSTRUCTION OF BAYOVAR

PHOSPHATE PLANT WITH VENEZUELAN ASSISTANCE

REFS: CARACAS 6652, LIMA A-109 (NOTAL), LIMA 4940 (NOTAL)

SUMMARY: DR. ARMAND HAMMER, CHAIRMAN OF OXY PETROLEUM, VISITED LIMA JULY 18-20, WHERE HE DISCUSSED PERUVIAN OIL QUESTIONS, PIPELINE, AND OXY INTEREST IN EXPLOITING PHOSPHATE DEPOSITS AT BAYOVAR ON NORTHERN COAST IN COLLABORATION WITH VENEZUELA. TRIP PARTICULARLY UNDERTAKEN TO MEND FENCES FOLLOWING OXY'S DECISION NOT TO FINANCE TRANS-ANDEAN FEEDERLINE, AND ALSO TO OBTAIN FIRST-HAND VIEW OF PERUVIAN PETROLEUM SITUATION. HAMMER WARMLY RECEIVED BY GOP AND PRESS. END SUMMARY

1. DURING THREE-DAY STAY IN LIMA, JULY 18-20. CHAIRMAN ARMAND HAMMER OF OCCIDENTAL PETROLEUM CORPORATION GAVE A
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PRESS CONFERENCE AND VISITED WITH SIX PERUVIAN

MINISTERS (PRIME MINISTER, MINES, INDUSTRY, COMMERCE, AGRICULTURE, AND FINANCE) AS WELL AS STATE DEVELOPMENT BANK, EMPHASIZING OXY'S ROLE IN EXPLOITATION OF PERUVIAN PETROLEUM AND ALSO EXPRESSING BOTH PUBLICLY AND PRIVATELY OXY'S INTEREST IN TECHNICAL ASSISTANCE AND/OR JOINT VENTURE RELATIONSHIP BETWEEN MINEROPERU, OXY, AND VENEZUELAN GOVERNMENT FOR DEVELOPMENT OF THE SECHURA PHOSPHATE POTASH DEPOSITS AT BAYOVAR IN NORTHERN PERU.

2. DURING CALL ON AMBASSADOR JULY 19, HAMMER SAID OXY'S PETROLEUM SITUATION IN PERU IS VERY FAVORABLE SINCE HIS COMPANY HAS HIT 13 OUT OF 14 WELLS IN ITS CONTRACT BLOC IN FIVE DIFFERENT FIELDS AND THAT OXY'S PETROLEUM, PLUS THAT AVAILABLE TO PETROPERU ITSELF, JUSTIFIES CONSTRUCTION OF THE TRANS-ANDEAN PIPELINE. HE SAID OXY NOW ASSISTING PERU IN OBTAINING EXIMBANK FINANCING AS WELL AS COMMERCIAL BANK FINANCING FOR PIPELINE CONSTRUCTION. HE SAID THAT ONLY CONDITION COMMERCIAL BANKS HAVE IS THAT EXIMBANK BE PART OF OVERALL PACKAGE.

3. IN SUBSEQUENT CONVERSATION WITH ANOTHER RANKING OXY OFFICIAL, EMBASSY OFFICER ALSO LEARNED THAT OXY EXTREMELY INTERESTED IN EXACT NATURE OF CONDITIONS UNDER WHICH JAPANESE WILL MAKE AVAILABLE THEIR \$330 MILLION FOR THE PIPELINE AND OIL EXPLORATION. IT APPEARS THAT OFFICIALS OF JAPANESE PETROLEUM DEVELOPMENT CORPORATION AND OXY HAVE BEEN DISCUSSING NATURE OF USE OF JAPANESE MONEY BETWEEN THEMSELVES AND THAT ALTHOUGH BOTH PERUVIAN AND JAPANESE GOVERNMENTS HAVE AGREED IN PRINCIPLE TO LOAN CONDITIONS, FINAL AGREEMENT NOT YET REACHED AND THAT LOAN AGREEMENT MAY CONTAIN SPECIFIC CONDITIONS WHICH WOULD REQUIRE SPECIFIED PERCENTAGE OF OXY (AS WELL AS PETROPERU) OIL TO BE USED TO PAY OFF LOAN, A CONDITION OXY WOULD BE VERY RELUCTANT TO ACCEPT. OXY OFFICIAL SAID THAT SINCE PETROPERU RESERVES ARE PRESENTLY CONSIDERED TO BE ABOUT 33 MILLION BARRELS, AND OXY'S RESOURCES AT 200 MILLION BARRELS, OBVIOUSLY JAPANESE ARE INTERESTED IN OXY'S FIELDS AS "PRESENT GUARANTOR" OF THEIR SIX PERCENT MONEY TO PERU. PETROPERU, FOR ITS PART, HAS REMAINED NONCOMMITAL ON THIS POINT.

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4. THE PHOSPHATE PLANT - HAMMER OUTLINED IN SOME DETAIL TO THE AMBASSADOR HIS PLANS FOR POTENTIAL DEVELOPMENT OF BAYOVAR PHOSPHATE PLANT, WHICH WOULD ENTAIL INITIAL FIRST-STAGE INVESTMENT OF \$150 MILLION, POSSIBLY IN EITHER JOINT VENTURE OR TECHNICAL ASSISTANCE RELATIONSHIP WITH MINEROPERU. IN ESSENCE, THIS PROJECT WOULD INVOLVE OXY MONEY AND TECHNOLOGY, VENEZUELAN UREA AND AMMONIA, AND PERUVIAN

PHOSPHATES. GOV PRESENTLY INTERESTED IN EXCHANGE WITH PERU, ACCORDING TO HAMMER, WHO CLAIMED TO HAVE DISCUSSED THIS PROJECT WITH PRESIDENT PEREZ JULY 17. HAMMER PUBLICLY MENTIONED THIS SUBJECT SO THAT IT APPARENT THAT GOV ALREADY INFORMED ABOUT HIS DISCUSSIONS HERE. TO AVOID MISUNDERSTANDING AT THIS STAGE, DAVID MARTIN, OXY VICE PRESIDENT, PRESENTLY IN LIMA NOW PLANNING TO DISCUSS PROJECT JULY 23 WITH VISITING OFFICIAL OF VENEZUELAN PETROCHEMICAL INSTITUTE (IVP) WHO ALSO IN LIMA. APPARENTLY, OXY WOULD USE VENEZUELAN NATURAL GAS PRODUCTS, INCLUDING UREA AND AMMONIA, MIXING THEM WITH PERUVIAN PHOSPHATE AT BAYOVAR TO PRODUCE FERTILIZER WHICH OXY'S FERTILIZER SUBSIDIARY MIGHT MARKET ON BEHALF OF PERU. HAMMER HAD ORIGINALLY HOPED TO SIGN A LETTER OF INTENT WITH GOP, BUT NOW REALIZES THAT NOT REALISTIC AT THIS STAGE AND HAS HIS PEOPLE WORKING UP OUTLINES OF PRELIMINARY CONTRACT. GOP APPEARS INTERESTED GIVEN PRESENT SHORTAGE OF FERTILIZER AND GROWING PERUVIAN FERTILIZER IMPORTS.

COMMENT: HAMMER SEEMED WELL PLEASED WITH PRESENT STATE OF GOP-OXY RELATIONSHIP AND EXPRESSED NO CONCERN OVER FACT THAT OXY NOT PREPARED PICK UP FEEDER-LINE FINANCING. IT CLEAR THAT HIS TRIP, WHICH LOCAL OXY PEOPLE HAD NOT EXPECTED, PROBABLY GENERATED FROM HIS STOP IN VENEZUELA AND ALSO HIS INTEREST IN BAYOVAR PROJECT. HAMMER VISIT RECEIVED WIDESPREAD AND FAVORABLE COVERAGE IN ALL SECTOR PERUVIAN PRESS, INCLUDING PRO-GOVERNMENT DAILIES. WHETHER BAYOVAR PROJECT WILL MOVE BEYOND INITIAL DISCUSSION STAGE IS QUESTIONABLE SINCE IT HAS TANGLED HISTORY AND MINEROPERU HAS VARIOUS OTHER HIGH PRIORITY PROJECTS. OXY OFFICIAL CURRENTLY ATTEMPTING SOUND OUT MINMINS FERNANDEZ MALDONADO WHO MAY BE IN POSITION SHORTLY TO INDICATE TO OXY WHETHER GOP PRESENTLY PREPARED MOVE AHEAD ON BAYOVAR DEVELOPMENT.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, CONSTRUCTION, BUSINESS FIRMS, OIL FIELDS, CONTRACTS, PETROLEUM PIPELINES, PRESS CONFERENCES, INDUSTRIAL PLANTS, PHOSPHATES, VIS ITS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LIMA05998
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740199-0246
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740726/aaaaavty.tel
Line Count: 155
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: CARACAS 6652, LIMA A-109 (NOTAL), LI, MA 4940 (NOTAL)
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 20 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 SEP 2002 by cunninfx>; APPROVED <19 FEB 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OCCIDENTAL'S HAMMER VISITS PERU, EXPRESSES INTEREST IN PIPELINE AND CONSTRUCTION OF BAYOVAR
TAGS: EMIN, ENRG, OTRA, VE, PE, OCCIDENTAL OIL CO, (HAMMER, ARMAND)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005